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ABSTRACT

Research on performance appraisals has often overlooked the importance of attitudinal and organizational variables. To test a model of the influence of organizational contextual variables on the perceived utility of performance appraisals, 239 Virginia mental health workers completed a questionnaire. The 21 items were designed to measure the four components of the structural model: (1) constraints on performance; (2) purpose of appraisals; (3) organizations; and (4) ability of raters. Analysis of results indicated that performance constraints had a strong direct causal impact on the perceived utility of performance appraisals. Performance constraints also appeared to moderate the indirect causal influence of rater ability on the perceived utility of appraisals. The findings suggest that attitudes about the perceived utility of performance appraisals and their determinants can serve as a diagnostic tool for organizational development. (JAC)

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The Perceived Utility of Performance Appraisals: A Structural Model and Organizational Analysis

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The Perceived Utility of Performance Appraisals: A Structural Model and Organizational Analysis

Traditionally, research on performance appraisals has focused narrowly on the measurement instrument per se to the exclusion of attitudinal and organizational variables. Although the attitudes employees have about performance appraisals probably play a major role in the utility of appraisals to the organization (Landy, Barnes, & Murphy, 1978), these attitudes deserve attention in their own right. The reactions of employees to performance appraisals are well known. This is especially true if employees feel that their job security or pay is threatened (Meyer, Kay, & French, 1965).

The purpose of this research is to test a model of the influence of organizational contextual variables on the perceived utility of performance appraisals. The structural model is depicted in Figure 1. It suggests that perceptions of utility are due to three broad classes of organizational contextual variables.

Insert Figure 1 about here

Performance appraisals are used by organizations for two major purposes. One is as a basis for administrative decisions such as promotion, termination and compensation. A second purpose is for organizational development which includes the identification of organizational and individual training needs.

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Despite the importance of these purposes, employees often react negatively to performance appraisals. Although most employees want to perform well and be rewarded accordingly, they may perceive that appraisals do not provide accurate or relevant information about their performance.

Several strategies are commonly recommended for improving employee acceptance of performance appraisals (DeCotiis & Petit, 1978; Landy & Farr, 1980; McCall & De Vries, 1976). These include 1) improving the ability of raters to make appraisals and 2) considering constraints on employee performance.

Appraisals should emphasize the importance and frequency of job duties. Furthermore, they should be based on observations of job behavior (Dunnette, 1966). If employees perceive that raters do not have knowledge of their job duties or first-hand knowledge of their job performance, performance appraisals will be perceived to measure the trivial and lead to few improvements (Barr, Brief, & Falk, 1982; Landy et al., 1978).

Another determinant of ability to conduct performance appraisals is the training provided to raters by the organization. In particular, the content of training should illustrate and provide practice in the appraisal procedures as well as how to collect, record, and feed the appraisal information back to employees (Wexley & Latham, 1981).

Organizational practices can do much to create a supportive context for performance appraisals. Performance appraisals should be viewed to be an integral part of the rater's organizational role (Katz & Kahn, 1978). Raters should be given adequate time

to make appraisals and should be rewarded for the accuracy and fairness of their appraisals. Of course, raters attach the same degree of importance to the appraisals they make as they perceive being attached to the appraisals made of them by their superiors (Rowe, 1964). If performance appraisals have visible and continued support from all levels in the organization, employees should evaluate the appraisal process more positively.

Performance is often constrained by organizational factors that are not under the control of an employee (Eulberg, O'Conner, Peters & Watson, 1984). Unless performance appraisals consider constraints on performance, employees will perceive that appraisals have limited utility. In some work settings, employees must receive services and help from others to do their job, or they must wait for previous stages of the work-flow to be completed. Performance may be impeded by poor coordination of work activities or unplanned changes in work schedules. Furthermore, employees must have sufficient time to produce the quality and quantity of work required by the organization. Of course, mildly restrictive time limits can help to define work goals that lead to an increase in job performance (Bryan & Locke, 1967).

In sum, the present research tests a model that depicts the perceived utility of performance appraisals (i.e., accurate and lead to work improvements) as being due to contextual factors such as purposes (e.g., pay or promotion decisions), rater ability (e.g., knowledge and training) and organizational constraints (e.g., time and resources available for doing the job).

Method

Participants and Organizational Setting. A questionnaire was administered to 320 employees of the State of Virginia who provided mental health, mental retardation and substance abuse services. Two-hundred and thirty-nine employees completed the questionnaire for a response rate of 75%.

These respondents represented the entire staff of three Community Service Boards operating 54 different units within the southeast region of the State. Since each Board determines its own performance appraisal system, they were treated as separate organizations.

Questionnaire. Twenty-one items were written to measure the four components of the structural model. These items were grouped into four scales and assessed for their internal consistency. Items that were redundant or ambiguous were eliminated from further analysis. The coefficient alphas for the four scales are reported in Table 1.

Analysis. The model depicted in Figure 1 was evaluated with the LISREL V computer program (Joreskog & Sorbom, 1981). LISREL analyzes two models to estimate the structural relationships among latent variables and their observable indicators. The measurement model defines the observed measures as weighted linear combinations of latent traits plus their respective measurement errors. The measurement model is general in that an observed variable can be determined by several latent trait variables, though it is preferable for a single measure to be determined by a single latent trait. Furthermore, measurement

errors can be defined as correlated, though the model initially assumes that measurement errors are uncorrelated, as in the classical (true score) theory of measurement. A special case of the measurement model is measurement without error as with indicator variables such as sex or organization.

The second model estimated by LISREL is the structural equation model. This model defines the presumed causal relationships among the latent variables. Two classes of latent variables are contained in this model. One class consists of exogenous or antecedent variables. These are variables that have a causal influence on the second class of endogenous variables. The exogenous variables have no specified causal antecedents but instead serve as the starting point for the system of structural equations. The endogenous variables are the primary focus of causal relations in the structural equation model.

Causal relationships among the variables are specified by paths that are depicted with arrows representing the direction of causal influences, as in Figure 1. Each path has a regression-like weight associated with it that describes the causal influences among the set of endogenous and exogenous variables.

Results

The a priori measurement model provided a poor fit to the data (Chi Square = 234.20, df = 65, $p < .01$). Two sources contributed to the poor fit. First, the salary variable covaried with the latent trait of performance constraints rather than with the latent trait of purpose. Second, several of the indicator variables possessed correlated measurement errors. The revision

of the a priori measurement model is shown in Table 1. This revised model provided a good fit to the data (Chi Square = 48.67, df = 43, $p > .20$), and it was used to evaluate the structural equation model of the perceived utility of the performance appraisals.

Insert Table 1 about here

The a priori structural model also did not fit the data (Chi square = 234.2, df = 62, $p < .01$). As shown in Figure 2, several of the hypothesized paths between the latent traits were changed to trim the model to fit the data (Chi Square = 64.1, df = 51, $p > .05$). The revised model with its structural coefficients suggests that the ability of raters is no longer a direct causal influence on perceived utility. Rather, ability influences perceived utility indirectly through its influence on constraints. In addition, the causal influence between ability and constraints is bidirectional. The greater the ability of raters, the less constraints influence the appraisals; and the more appraisals take into account constraints, the greater the ability of the raters to appraise performance. Finally, the structural coefficients for the two contrasts of the three organizations suggest that the organizations differed in their purposes for performance appraisals, constraints on their employees' performance, and the ability of their raters. Furthermore, although the purpose for appraisals depends on the organizational setting, purpose has no causal impact in the trimmed model.

Insert Figure 2 about here

Discussion

The present study tested and revised a model of the perceived utility of performance appraisals. The results suggest that performance constraints have a strong, direct causal impact on the perceived utility of performance appraisals. Furthermore, performance constraints also appear to moderate the indirect causal influence of rater ability on perceived utility.

Other research on performance constraints supports these results (see Eulberg et al., 1984). For example, motivational theorists have noted that performance constraints affect the magnitude of effort directed toward performance (Campbell & Pritchard, 1973; Lawler, 1973). Dachler and Mobley (1973) have even suggested that an individual who perceives performance constraints may gradually lower performance-reward expectations. Furthermore, Herman (1973) has suggested that when jobs are free of performance constraints employee attitudes can be predictive of performance. Schneider (1978) supports this suggestion and also argues that removing performance constraints will improve the validity of employee selection.

The practical implications of the model are evident. Attitudes about the perceived utility of performance appraisals and their determinants can serve as a diagnostic tool for organizational development. For example, raters can be trained to consider constraints on performance. This could lead to changes in work design and resource allocation. Of course, constraints often cannot be eliminated due to the requirements of the unit's technology and workflow (Lawrence & Lorsch, 1967; Thompson, 1967).

However, if employees are aware that raters consider constraints in their performance appraisals, the utility of these appraisals can be enhanced for feedback and employee motivation to improve performance.

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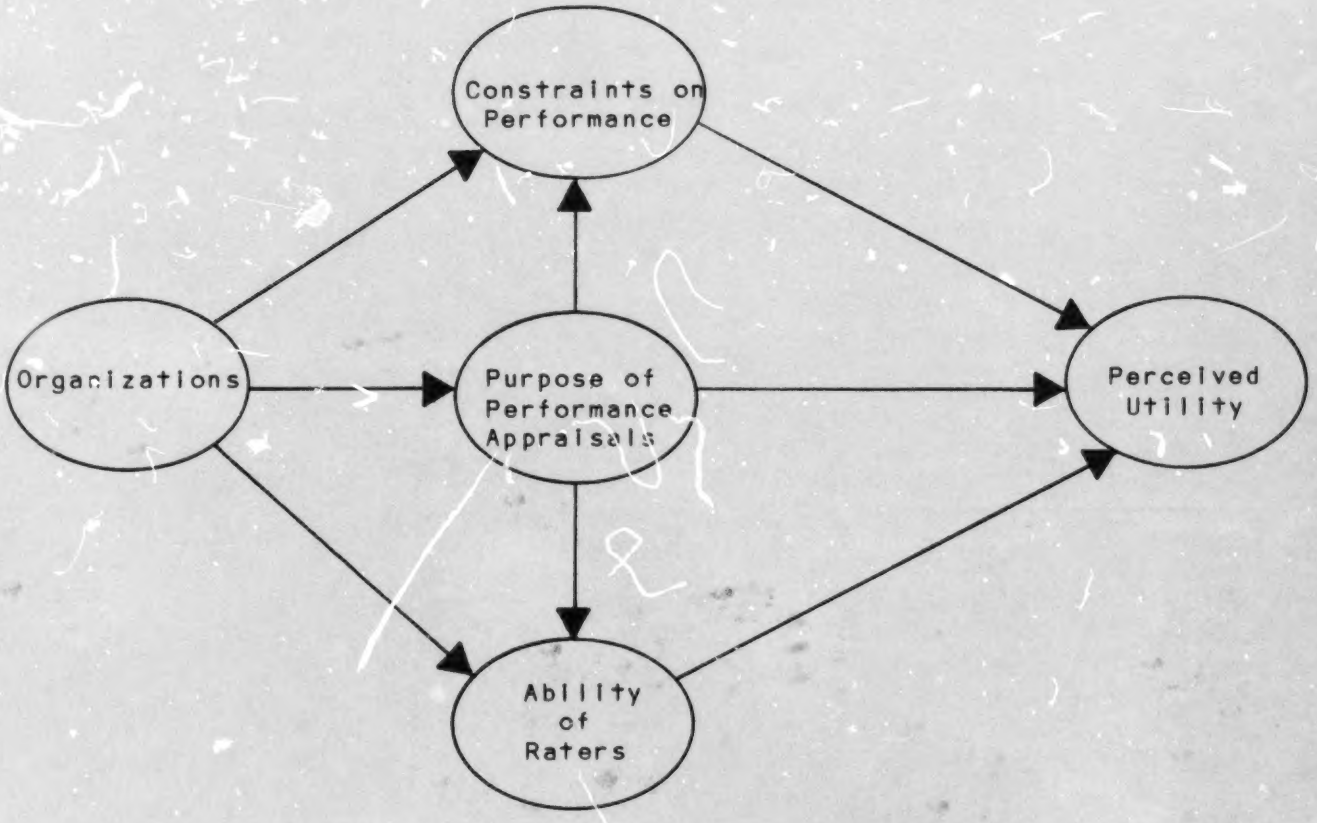
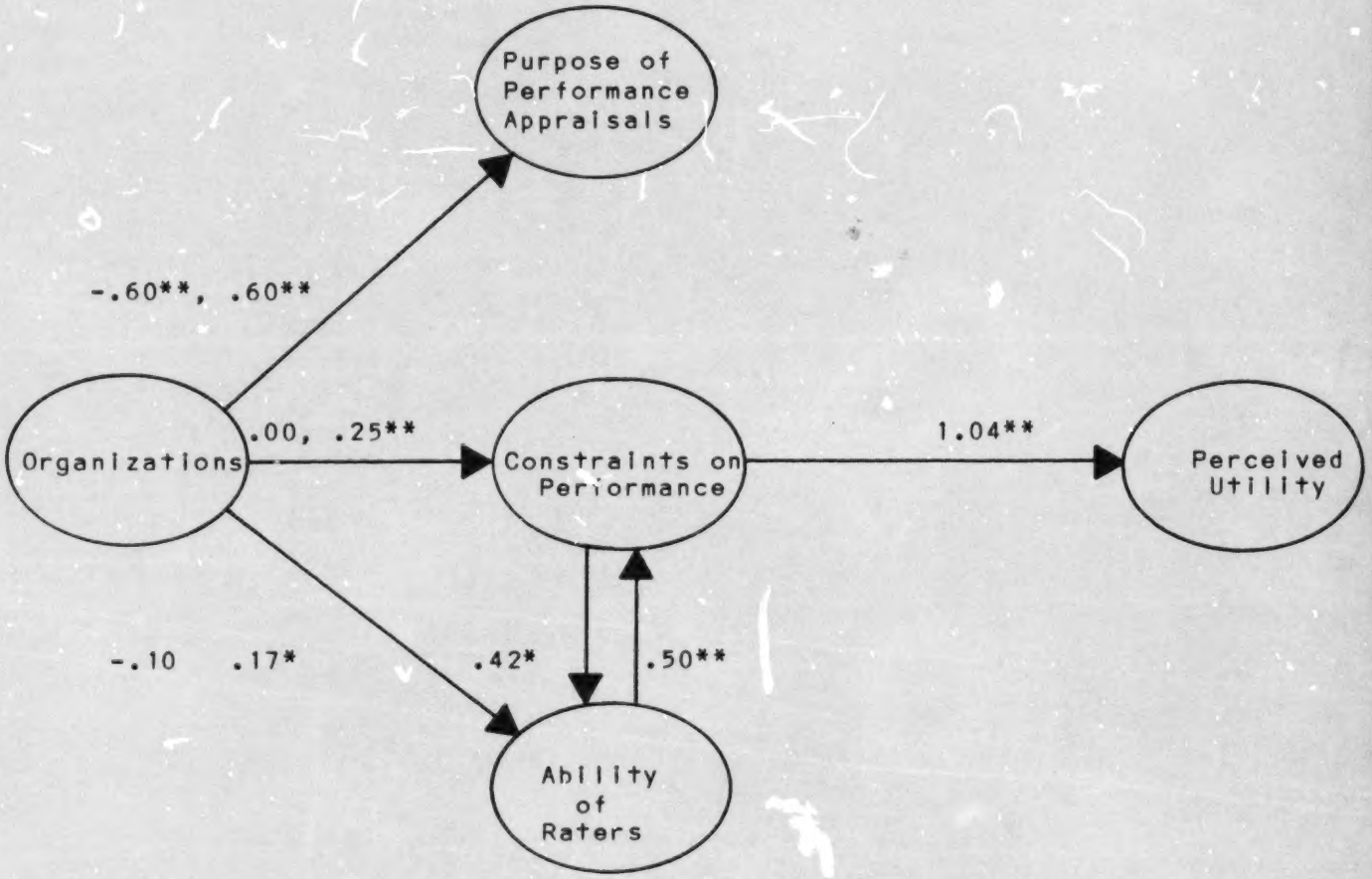


Figure 1. A model of the perceived utility of performance appraisal.



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* p < .05
** p < .01

Figure 2. Revised Model of the Perceived Utility of Performance Appraisals.

Table 1. Revised Measurement Model

	Latent Trait Covariances[a]			
Variables	P[b]	C	A	U
Used for development	.53	.00	.00	.00
Used for promotion decisions	1.00	.00	.00	.00
Used for salary decisions	.00	.88	.00	.00
Considers limitations by others	.00	.69	.00	.00
Considers resources available	.00	.91	.00	.00
Considers guidance received	.00	1.00	.00	.00
Training for appraisal	.00	.00	.88	.00
Familiarity with performance	.00	.00	.66	.00
Frequency of appraisals	.00	.00	1.00	.00
Rewards for accurate appraisals	.00	.00	.00	.74
Aid for setting goals	.00	.00	.00	.97
Feedback of appraisals	.00	.00	.00	1.00

Note: Chi-square = 48.67, df = 43, p > .20.

[a] A 1.00 is fixed for one variable in each latent trait to create an arbitrary scale; a .00 indicates that the covariance was fixed to equal zero.

[b] Abbreviations are P = Purposes of Appraisals, C = Constraints on Performance, A = Ability of Raters, and U = Perceived Utility of Performance Appraisals. Coefficient alphas were P = .65, C = .75, A = .82, and U = .77.